



HELIO

**“Don’t Call us a Phone Company”:
Helio’s Strategy for Differentiating the
MVNO Market**

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I. Executive Summary

- Helio is a Lifestyle MVNO (mobile virtual network operator). A Lifestyle MVNO leases network capacity from major suppliers and resells it, providing additional customer value in the form of exclusive content, advanced phones, and networking.
- The major wireless market is essentially saturated. The Lifestyle MVNO market is relatively new and targets affluent, technology-savvy consumers.
- The market is characterized by an emphasis on trendy design/style, advanced phone features, and hip content. Price matters, but is by far not the key factor in a purchase.
- Major competitors are Boost Mobile and Amp'd Mobile
- Current product differentiation between competitors is very low.
- This means product differentiation is the most important strategic move.
- Achieve differentiation through content, marketing, and technology.
- Promising additional content: online poker, Pride Fighting Championships, pay-per-view TV and movies, online music shop
- New marketing strategies: celebrity ad campaign, exclusive ad agreements with major TV networks.
- Promising new technologies: phone as a modem for laptop, speech to text/text to speech, cross-medium address book syncing
- Other major considerations: Network suppliers, EarthLink's WiFi interest
- Network suppliers have bargaining power, but benefit from MVNOs enough to continue providing network.
- EarthLink may attempt to build a WiFi network, eliminating the need for a separate network supplier.

II. Introduction

Helio was launched May 2006 as a joint venture between EarthLink and SK Telecom with the plan to avoid competition with major phone providers in an already saturated wireless market¹ and instead appeal to young, affluent, technology-savvy consumers. Helio's purpose was to provide a central point for a community of people to share content in ways the major phone services simply do not provide.

According to reports, Helio out-earns major cell phone companies 2 to 1 in terms of revenue per subscriber. Such success has allowed Helio to maintain its current direction and target demographic. Helio has taken a major step towards differentiating itself and becoming a community hub via its agreement with MySpace to provide the MySpace Mobile service to Helio subscribers. In addition, Helio's boutique shops in San Diego, Santa Monica, Palo Alto, and Denver are well located to provide a polished

¹ <http://en.wikipedia.org/wiki/Helio>

purchasing experience for its target market. Helio's CEO Sky Dayton is renowned as a good marketer.

However, projections indicate that Helio will not be able to generate positive cash-flow until 2009 with no prediction for when Helio will break even and start earning margin². With an average of around 30,000 new subscribers per quarter, growth is looking slow compared to competitor Boost Mobile which attracted 250,000 subscribers in its first year of business³.

Helio boasts two phones in their product line: the Drift and the Heat. Both phones are loaded with features such as Location Based Services, streaming video, and mega pixel cameras. Of the two, the Heat is smaller, sleeker, but has a slightly lower quality camera. These phones are an excellent match to the target demographic, who prefer feature-laden phones.

Helio is currently tied with Amp'd Mobile for second in market share at around 100,000 subscribers each⁴. Boost Mobile is the market leader with over 3.1 million subscribers⁵. Sales for Helio are currently steady although they are projected to rise with increasing brand recognition assuming a successful marketing campaign.

In the immediate future, Helio's primary concern must be expanding its subscriber base via better marketing and more content (preferably exclusive). The current rate of signing subscribers is far too low to remain competitive especially in light of Boost's success. Good marketing will increase brand recognition and is one of Helio's strengths. Additional content serves several purposes such as differentiation, adding value for customers, increasing customer loyalty via network externalities, and removing competitors' avenues for differentiation. In the end, the content will be a big factor in attracting new subscribers.

III. Background - Market and Competitors

The Major Wireless Market

In the current US mobile phone market, there are three dominant companies and two companies that are lagging but still hold significant market share [Table 1]. These 5 companies combined account for 206.66 million subscribers, 2/3 of the entire estimated US population⁶. Taking a reasonable target customer to be between the ages of 15-64 years old and using current US census estimates (67.2% in this age range), it is clear that

² http://news.com.com/Helio+a+drag+on+EarthLinks+earnings/2100-1036_3-6156711.html

³ http://news.com.com/Is+Helios+cool+factor+enough++page+2/2100-1039_3-6157213-2.html?tag=st.next

⁴ http://en.wikipedia.org/wiki/Amp%27d_Mobile

⁵ http://en.wikipedia.org/wiki/Boost_Mobile

⁶ http://en.wikipedia.org/wiki/US_population

these 5 mobile operators have managed to attract as many customers as can be expected. The market is essentially saturated.

Table 1

Operator	Subscribers (in millions)
Cingular Wireless/AT&T	59.8
Verizon Wireless	57.0
Sprint Nextel Corporation	53.7
T-Mobile USA	25.0
Alltel	11.16

Mobile Virtual Network Operators

A Mobile Virtual Network Operator or MVNO is a service provider that does not own any spectrum or network infrastructure. An MVNO leases network capacity from a major network provider and resells it, usually adding content, brand appeal, and advanced handsets.

The goal of an MVNO is to appeal outside of the major wireless customer base. Two major MVNO market trends exist, Lifestyle MVNOs and Discount MVNOs, the latter of which is irrelevant to our discussion. Lifestyle MVNOs target the young, affluent, trendy, technologically savvy customer. Helio is a prime example of a Lifestyle MVNO, as are primary competitors Boost and Amp'd.

Understanding the Market

The Lifestyle MVNO market is significantly smaller than the major wireless market. Amp'd and Helio each have around 100,000 subscribers, two orders of magnitude smaller than the number of subscribers of the 5th largest major provider. The largest Lifestyle MVNO, Boost, has 3.1 million subscribers, demonstrating the possibility of relatively large market appeal. However, this is still an order of magnitude less subscribers than the top major providers.

Geographically, the target demographic is highly concentrated since upper-middle class and upper class families generally tend to form communities. One can easily see this from rich neighborhoods such as Beverly Hills, Pasadena, Plano, Santa Monica, and Orange County. This makes the placement of stores relatively simple, and Helio has

already begun taking advantage of this by opening boutique shops in San Diego, Santa Monica, Palo Alto, and Denver with more slated to open.

Based on the fact that current subscribers are paying ~\$100/month/subscriber, we can conclude that price is not a major concern for the target demographic. In fact, this validates the concept of targeting the affluent and technologically savvy customer since this assumes the customer will pay a premium for better phones and superior services. Thus we can assume the current product line reflects the motivations behind customer purchase decisions. The two key factors are then phone design and the service to match the abilities of the phones.

Common to all MVNO phone designs are web browsing, text messaging, e-mail, camera, video camera, speakerphone/conference calling, Bluetooth, streaming content such as videos and music, lots of memory, personalization options, and accessories. All these features are usually present and should be considered critical, even if they are standard. Performance and style are areas that offer the possibility of offering a superior product. By improving call quality and battery life, Helio can sway customer purchases in its favor. Similarly, the more stylish or trendy phones will also be more desirable.

The service provided by the MVNO must be able to match the formidable features of the phones. Again, this is an area that is critical, though standard. Essentially a Lifestyle MVNO ceases to be attractive if it cannot support the features on its phones, but it is relatively difficult to go above and beyond in this area, especially since network coverage and reliability are not directly under the control of the MVNO. In fact, Helio has already maximized its appeal in this area by offering unlimited service in virtually every category with its All-In plan⁷.

Price is a lesser concern, but the reputation of any given MVNO is not good enough that a customer will pay a significant premium for a brand. Thus if all else is equal (which it rarely is), price will have a significant impact.

Understanding the Competition

Helio has avoided competition with the major networks by simply differentiating themselves out of the market. These would be the most concentrated and biggest competitors. However, significant competition exists between Helio, Boost, and Amp'd. The Lifestyle MVNO market is not extremely price sensitive since the phones are made to be sold to the feature-hungry, not the value conscious. Thus, the environment is not particularly inviting for price competition.

Several factors present entry barriers and thus reduce competition. Any entrant must purchase a large number of phones. Also, entrants must purchase enough network coverage to cover the continental US. In addition, customers switching costs can be

⁷ <http://www.helio.com/page?p=join&>

significant depending on whether the rival MVNOs are CDMA or GSM as these two standards are not cross-compatible. Also, since Lifestyle MVNOs are designed to provide a social network, there are network externalities so an entrant faces the problem of reaching a critical mass of customers necessary to equal the network externalities of incumbents.

However, we encounter major competition when considering the substitutability of the Lifestyle MVNOs. Helio only has a slight technological edge over other Lifestyle MVNOs because of its highly developed phones from SK Telecom’s South Korea market. As far as service and phone features [Table 2], Helio is very similar to Boost and Amp’d mobile, so it is clear that these three brands easily substitute for each other.

Thus, there is heavy competition between Helio, Amp’d, and Boost, with a relatively small chance for new entrants because of the above mentioned barriers.

Table 2 – Phone Features

	Boost Mobile (Motorola i885)	Amp’d Mobile (Kyocera Jet)	Helio (Samsung Drift)
Color Display	♦	♦	♦
Speakerphone	♦	♦	♦
Camera Phone	♦	♦	♦
Video Recorder	♦	♦	♦
Bluetooth	♦		♦
Removable Memory Card	♦	♦	♦
Photo Caller ID	♦	♦	♦
Downloadable Ring tones	♦	♦	♦
Voice Activated Dialing	♦	♦	♦
MP3 Player	♦	♦	♦
GPS	♦	♦	♦
Web Browser	♦	♦	♦

IV. Other Considerations

Suppliers

Helio is at a strategic disadvantage when dealing with its network suppliers Sprint and Verizon. The suppliers have bargaining power. The loss of Helio would be a small blow to the supplier while the loss of a network could potentially destroy Helio. There are two situations which would be most damaging to Helio if they lose Sprint and Verizon as suppliers. If they cannot find another supplier, Helio cannot maintain operations at all and must exit. If Helio finds another supplier, but that supplier is a GSM only network, then there are enormous switching costs involved. Helio must acquire phones for GSM, then

deal with the incredible inconvenience that a switch would have on its customers (distributing new phones so that customers can actually get service again). In any case, any loss of supplier, whether temporary or not will result in service outage for Helio subscribers, negatively affecting Helio's reputation.

However, MVNOs increase the customer base at zero marginal cost to the supplier. This helps offset the enormous cost of building 3G networks. In addition, MVNOs take care of their own operations such as logistics and marketing, meaning it would cost less for a network to have an MVNO handling fringe demographics than having the network devote resources to pursue those demographics. Thus the benefits of an MVNO outweigh their competitive threat in most cases.

Nonetheless, Helio should sign a medium-long term contract (3-5 years) to guarantee enough time to start generating positive cash flow before its suppliers have a chance to leverage their superior bargaining position.

EarthLink and WiFi

EarthLink, which owns half of Helio, has expressed interest in WiFi. Helio might then be an experiment for EarthLink to allow it to gain experience in the market. In fact, Helio offers a PCMCIA Card for Laptops called the Hybrid which allows laptops WiFi access, giving evidence for such a hypothesis⁸. If EarthLink is actually interested in building its own WiFi network, then it is entirely possible that EarthLink will eventually become Helio's network supplier, a very beneficial arrangement for both parties. Such vertical integration would eliminate Helio's dependence on a possibly competing network supplier. There would never be concern if Helio grew too large, allowing Helio to generate more revenue to improve EarthLink's portfolio.

The Future of MVNOs

There is an upper bound on the amount of potential customers for MVNO's. Once this bound is reached MVNO's will show minimal signs of growth. Whether this bound will be reached in the next three years or the next ten years is unknown without more detailed information on the total number of people in the target demographic.

V. Strategy - Differentiation

Overview

Considering the nature of the MVNO market, the primary method for increasing profitability is differentiation, which reduces substitutability and decreases rivalry. In addition, there are logistical matters such as integrating operations with the network and content providers and running an efficient billing system. However, given the lack of information on the internal logistical operations of Helio, we will only consider what

⁸ http://www.helio.com/page?p=devices_hybrid#devices_hybrid

steps Helio can take to differentiate itself more. Helio's three most important sources of differentiation will be content (preferably exclusive), marketing, and technology.

Content

Acquiring exclusive content by definition *is* differentiation. In addition, Helio will reduce competitors' avenues of differentiation with each acquisition. A content advantage is very maintainable through the use of contracts and exclusivity wherever possible.

Current content includes (* indicates exclusive):

- MySpace Mobile [Figure 1]
- GPS enabled Google Maps
- HOT (Helio On Top news/weather/sports) *
- AIM

Possible new content includes (* indicates potential for exclusivity):

- Online Poker * - considering the growing attraction of online poker within the last few years, this would be a great asset.
- Pride Fighting Championships * - While Pride FC is currently not as popular as UFC in the U.S., it is gaining momentum and is recognized as an equivalent or even superior mixed-martial arts league.
- International Fight League * - Team mixed martial arts.
- Pay-per-view TV shows/movies *
- Online music shop * - similar to the iTunes model, but for a phone
- Mobile Audio books *
- Mobile Video Posting * – similar to YouTube
- eBay Mobile in the US * - eBay Mobile currently exists only in the U.K.
- NetFlix Mobile
- Fantasy Sports Mobile – allow friends on the network the convenience of managing their fantasy teams through the phone.
- Real-time TV – Sprint is offering this through its MobiTV service, perhaps develop a competing system.
- Facebook Mobile – Offer superior phone based integration with this social phenomenon.
- Gaming networks – Allow friends to compete coast-to-coast over their phones
- ESPN Mobile
- Ultimate Fighting Championships – the most popular mixed martial arts league in the U.S.
- Flight information



Figure 1: MySpace Mobile on Helio

Marketing/Image



Figure 2: Helio Santa Monica Store Front

Product/content differentiation is useless if no customers actually know about it. Once exclusive content is acquired, it will be up to marketing to actually inform potential consumers of said content. Also, a unified image will aid in the customer's sense of product differentiation. A marketing/image advantage is maintainable since reputations, once established, persist so long as nothing drastic is done to harm them.

Helio's CEO Sky Dayton is well known for coming up with great marketing ideas. This is readily evident in Helio's use of innovative marketing techniques such as its slogan "Don't Call Us a Phone Company; Don't Call it a Phone" which expresses the idea of Lifestyle MVNOs – that they are something different entirely from traditional phone services. Another example is its boutique stores [Figures 2 and 3], which provide a complete purchasing experience and reinforce Helio's upscale image from the moment the customer walks through the door. Also Helio currently allows customers to trade old cell phones in addition to items such as digital cameras, iPods, PDAs, and handheld game consoles for credit, establishing good relations with its customer base from the start.

Future possibilities include:

- An ad campaign featuring well known celebrities, especially celebrities with mobile content offered exclusively through Helio.
- As new content is being added, advertisements featuring the content prominently.
- MVNO Exclusive advertising agreements with television networks commonly watched by the target audience. (I.e. Helio is the only MVNO that the network would advertise).

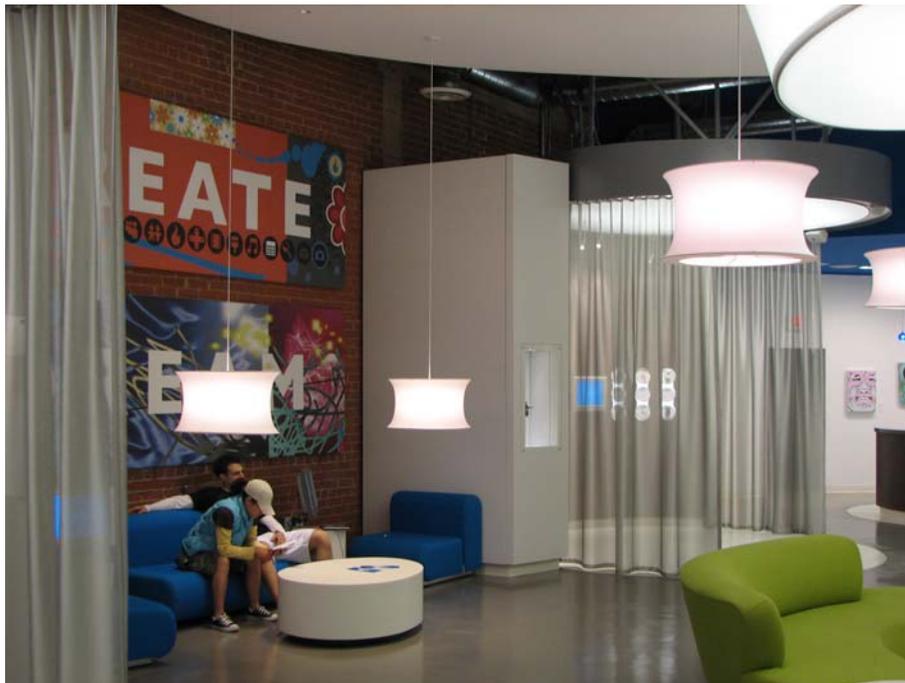


Figure 3: Inside Helio's Santa Monica Store

Technology

Helio's target demographic is very feature/technology sensitive. If Helio can obtain appealing new technologies, it can differentiate itself as a technology leader, a highly desirable reputation for such a market. While such an advantage will be hard to maintain given the general rate of advancement in wireless technologies, it can be integrated with content to give a more polished experience.

Possible future technologies include:

- Improved phone-browser-website integration with major content providers such as MySpace.
- Auto-sync with address books with automatic prioritization of contacts. Sync over a wide range of communication medium (AIM, e-mail, voice). In other words, the phone remembers everybody you ever IM'd, e-mailed, or called, etc.
- An on-phone scripting environment to allow for simple programming.
- Speech to text/text to speech.
- Integration with laptops so that the phone can be used as a modem. 3G networks offer transfer speeds up to 144 Mbps, almost 3 times as fast as current wireless networking⁹.

Conclusion

For Helio to survive, it must differentiate itself by gathering ever-more content (exclusive wherever possible), marketing to express its differentiation to the consumers, and developing and implementing the latest technologies. Differentiation will significantly reduce competition and substitutability since features and service rule in this market.

⁹ <http://www.helio.com/page?p=join&>, note the 144 Mbps may be a typo since it seems unreasonable. It may in fact just be 14.4 or 1.44 Mbps